

# City of Detroit

## CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ.*

DATE: May 2, 2007

RE: Resolution Authorizing the Issuance and Sale of Not to Exceed \$132,000,000 in City of Detroit Series 2007 Revenue Anticipation Notes and Tax Anticipation Notes (RAN/TANs) **(Recommend Approval) Line Item 24 on Today's Calendar)**

Currently before your Honorable Body is the resolution referenced above. The Series 2007 Tax Notes would comprise of a combination of not to exceed \$88.45 million in RANs and not to exceed \$43.51 million in TANs, for a total of not to exceed approximately \$132 million.

The attachment represents a draft report with an accompanying package I received from Mr. Roger Short, CFO, on Monday that provides a response to my questions on the RAN/TANs proposal.

I find that the responses and additional information given generally satisfactory. Based on the last four sheets of the attachment, it appears the City could theoretically borrow up to approximately \$138 million, the maximum limit based on state law. But instead, Mr. Short projects the City would borrow only up to \$125 million, which is about 91% of the limit. The projected cash flow attached (third page of the attachment) assumes the \$125 million RAN/TANs as well.

I do want to provide Council some cautionary remarks. The cash flow also assumes the tunnel deal that is currently before you to help address the City's budget deficit would raise about \$65 million for the City in June 2007. Currently, I feel Council does not have sufficient detail to support the tunnel deal. If Council elected not to approve the deal by May 24<sup>th</sup>, the last day for your Honorable Body to adopt the Mayor's budget with any of your changes, the \$125 million in cash proceeds from the RAN/TANs would have to be in place in order for the City to meet its cash obligations, or the City runs out of cash to pay bills. Obviously, that event would signal an immediate red flag and would cause for some State intervention.



The City could have sufficient cash in June if the tunnel deal took place by June 30<sup>th</sup>, and the RAN/TANs sale did not take place by June 30<sup>th</sup>. But I feel this is a very unlikely scenario, given the current state of the tunnel deal.

So, in essence, the City Council is basically forced to strongly consider approving the RAN/TANs proposal. Council will recall, however, that Mr. Short last year indicated he would come back to Council with a RAN/TANs proposal for this current fiscal year, and it appears he will come back again next year, based on his responses.

I do agree with Council, that at some point, the City ideally would get to the position of not having to rely on a RAN/TAN to meet cash flow, but instead, use them as cash smoothing process (i.e., pay current expenditures with current revenues the City gets up front), as they are normally used. Instead, the City would again use these RAN/TANs to not only help pay bills in this fiscal year; they would also be used to pay for prior year expenditures (pension payments).

Another concern is that as you know, the current formula for the statutory State Revenue Sharing dollar distribution to local municipalities expires in September of 2007. According to the attached schedules, approximately \$94 million from the State Revenue Sharing dollars received by the City in 2007-08 would first be set aside to cover the debt service requirements associated with the Greater Detroit Resource Recovery Authority (GDDRA). Then, approximately \$44 million of additional State Revenue Sharing dollars would be set aside to cover the RAN short-term borrowing debt.

Mr. Short feels the State thus far has pledged to not touch State Revenue Sharing dollar distributions right now, and that the State is busy focusing on balancing its budget. Although I cautiously agree with his assumption, I still have to live with the fact that after September, State Revenue Sharing dollars will not be legislatively guaranteed until a new formula (that hopefully does not reduce dollars to Detroit) is enacted by the State legislature and approved by the Governor.

I lastly want to mention that Mr. Short has informed the State Treasurer's office recently that the June 30, 2006 CAFR is delayed, and that it should be coming out around June 15<sup>th</sup>. If Council approves the RAN/TANs resolution, this allows the State to at least process the RAN/TANs application, so that by the time the CAFR comes out, the State could approve the RAN/TANs sale right away.

Mr. Short also indicated that the State might agree to give the City a conditional approval of a draft copy of the CAFR if the CAFR is substantially completed and has received a comfortable level of review by the external auditors, KPMG, if a final CAFR cannot be produced by June 15<sup>th</sup>. I am not sure if conditional approvals have been given by the State for the City in the past. You probably should hear from Mr. Short on this before you act on the resolution.

In the meantime, I do recommend Council's approval of the not to exceed \$132 million RAN/TANs proposal. Unfortunately, Council basically has no choice, given the City's projected cash flow position in June. I would not want Council to rely at all on the tunnel deal, at this point. Your approval of the resolution allows the CFO to get the RAN/TANs application up to the State to start processing (by the way, I asked Mr. Short to provide Council a copy of the application once it is completed, and he agreed to do so). This also gives the City some time to complete the CAFR.

#### Attachments

cc: Council Divisions  
Auditor General's Office  
Roger Short, Chief Financial Officer  
Donita Crumpler, General Manager-Finance  
Pamela Scales, Budget Director  
Kandia Milton, Mayor's Office

ICJ:\ICORLEY\RAN TANs 2007 Reso \$132 Million.doc



# DRAFT

May 1, 2007

To: Irvin Corley, Fiscal Analyst

From: Roger Short, Finance Director

Re: RAN/TAN Questions

Below are the responses to your questions. Please contact me if you have any additional questions.

1. Please provide a cash flow projection for 2006-07 and 2007-08 (if possible).  
*Attached is a copy of the most recent cash flow.*
2. Please provide the worksheets that support the size of the sales. I'm assuming you're for sales that are at, or close to, maximum borrowing amounts.  
*Attached are the calculations for the \$132 million amount. We still are projecting borrowing only \$125 million, the resolution gives the City greater flexibility if the final amount is more than \$125 million.*
- 2a. Are up looking to use the garbage fee revenue to support the TAN as well?  
*No.*
3. Please explain why the City needs this RAN/TAN at this magnitude.  
*As discussed last year the \$125 million will be use in large part to address the Police and Fire Penison liability for the prior fiscal year.*
4. Do you anticipate the City needing to do a RAN/TAN in 2007-08?  
*Yes.*
5. Will the RAN/TAN pay for any expenses related to a period prior to 2006-07?  
*Yes, see question #3.*
6. Would the RAN/TAN pay for any expenses related to fiscal year 2007-08?  
*No.*
7. How can you expect the RAN/TAN sale taking place in June when it looks like the CAFR will not be done by June?  
*We anticipate and plan for the CAFR being completed in June, with sufficient time to complete the RAN/TAN transaction.*

8. What is the status of the June 30, 2006 CAFR?

*See question #7.*

9. What is the maximum that the City could borrow with the RAN/TAN, and what is the basis of the limit?

*See question #2.*

cc: Kandia Milton  
City Council Members  
Donita Crumpler

	ACTUAL (in millions)								FORECAST (in millions)				
	July	August	September	October	November	December	January	February	March	April	May	June	Total
BEGINNING BALANCE	\$ 191	\$ 162	\$ 251	\$ 180	\$ 156	\$ 175	\$ 179	\$ 154	\$ 150	\$ 136	\$ 86	\$ 94	\$ 191
CASH RECEIPTS													
Revenues*	119	334	191	119	128	167	316	88	124	76	124	96	1,882
Sale of Assets												65	65
Proceeds of Debt												125	125
TOTAL CASH RECEIPTS	<u>\$ 119</u>	<u>\$ 334</u>	<u>\$ 191</u>	<u>\$ 119</u>	<u>\$ 128</u>	<u>\$ 167</u>	<u>\$ 316</u>	<u>\$ 88</u>	<u>\$ 124</u>	<u>\$ 76</u>	<u>\$ 124</u>	<u>\$ 286</u>	<u>\$ 2,072</u>
CASH DISBURSEMENTS													
Expenditures*	148	220	233	106	89	163	300	92	138	104	116	143	1,852
Debt Service		25	29	37	20		41			22			174
TOTAL CASH DISBURSEMENTS	<u>\$ 148</u>	<u>\$ 245</u>	<u>\$ 262</u>	<u>\$ 143</u>	<u>\$ 109</u>	<u>\$ 163</u>	<u>\$ 341</u>	<u>\$ 92</u>	<u>\$ 138</u>	<u>\$ 126</u>	<u>\$ 116</u>	<u>\$ 143</u>	<u>\$ 2,026</u>
ENDING BALANCE	<u>\$ 162</u>	<u>\$ 251</u>	<u>\$ 180</u>	<u>\$ 156</u>	<u>\$ 175</u>	<u>\$ 179</u>	<u>\$ 154</u>	<u>\$ 150</u>	<u>\$ 136</u>	<u>\$ 86</u>	<u>\$ 94</u>	<u>\$ 237</u>	<u>\$ 237</u>
ESTIMATED RESTRICTED CASH												<u>\$ 60</u>	<u>\$ 60</u>
ENDING AVAILABLE CASH												<u>\$ 177</u>	<u>\$ 177</u>

# CITY OF DETROIT, MICHIGAN

## Estimated Distributable State Aid ("DSA") Available to Pledge for FY 2008 Debt Service <sup>(1)</sup>

	FY 2005	FY 2006	FY 2007
	Actual	Actual	Actual
July	\$47,375,612	\$45,989,266	\$45,269,057
September	47,017,857	47,908,883	47,226,544
November	48,164,746	47,738,343	46,986,772
January	47,312,658	47,338,337	46,723,171
March	48,097,977	46,678,460	45,236,851
May	46,763,235	46,823,407	46,823,407 <sup>(2)</sup>
	<u>\$284,732,085</u>	<u>\$282,476,696</u>	<u>\$278,265,802</u>

36 Month Average:	\$281,824,861
50% of 36 Month Average:	\$140,912,431
50% of Fiscal Year 2006:	\$141,238,348

	Calculation of Net Available FY 2008 Debt Service
Total Eligible Debt Service @ 50% of Average:	\$140,912,431
Less FY 2008 Debt Service on Obligations with DSA Pledge	
Series 1993:	(13,558,800)
Series 1996A:	(34,206,875)
Series 1996B:	(17,887,031)
Series 2001:	(18,088,013)
Special Obligation:	(10,100,900) <sup>(3)</sup>
Total Debt Service on Outstanding DSA Obligations:	<u>(\$93,841,619)</u>
Net Available for FY 2008 after Existing Debt Service:	<u>\$47,070,812</u> <sup>(4)</sup>

(1) Michigan Act 97, Sec 5 requires that total debt service on DSA obligations not exceed 50% of the average annual receipts for the 36 months prior to issuance.

(2) Estimated.

(3) Estimated payment on GDRRA related obligations in the unlikely event of an "Interest Accrual Date".

(4) Generates a par value of \$46,135,000 at an assumed interest rate of 3.0%.



**CITY OF DETROIT, MICHIGAN**  
**Estimated Distributable State Aid ("DSA") Set-Asides Required**  
**Fiscal 2008**

	Estimated DSA Receipts <sup>(1)</sup>	Set-Asides to Pay Debt Service on Existing Obligations	Debt Service Balance on Existing Obligations	Remaining DSA Receipts After Set-Asides for Existing Obligations	Set-Aside to pay proposed Debt Service on RANs <sup>(2)</sup>	DSA after Payment of Existing Obligations and RANs
			\$83,740,719			
July 2007	\$45,269,057	\$45,269,057	\$38,471,662	\$0	\$0	\$0
September 2007	47,226,544	38,471,662	-	8,754,882	2,595,465	6,159,417
November 2007	46,986,772	-	-	46,986,772	14,586,131	32,400,641
January 2008	46,723,171			46,723,171	19,414,903	27,308,268
March 2008	45,236,851			45,236,851	10,474,312	34,762,539
May 2008	46,823,407			46,823,407	-	46,823,407
	<u>\$278,265,802</u>	<u>\$83,740,719</u>		<u>\$194,525,083</u>	<u>\$47,070,812</u>	<u>\$147,454,272</u>

Par Amount of RAN: \$46,135,000 <sup>(3)</sup>  
Estimated Interest Rate: 3.00%  
Estimated Debt Service of RAN: \$47,070,812

(1) Estimated July and September DSA receipts are equal to actual receipts in FY 2007.

All other receipts are as budgeted for FY 2007.

(2) The DSA set-aside for the 2007 RANs is calculated pursuant to Act 34.

(3) This is the maximum par amount (including original issue premium) allowed by the Resolution.

To the extent interest is greater than projected below, the par amount will be decreased.



# CITY OF DETROIT, MICHIGAN

## Estimated FY 2008 TAN Cashflow

<u>Receipt Date</u>	<u>Estimated Property Tax Receipts <sup>(1)</sup></u>	<u>Estimated General Fund Related Property Tax Receipts <sup>(2)</sup></u>	<u>Set-Aside to pay Debt Service on TANs <sup>(3)</sup></u>	<u>Property Taxes after Payment of of TANs</u>
July 2007	\$5,679,000	\$1,787,713	\$1,117,302	\$670,411
August 2007	193,761,000	60,994,744	38,121,074	22,873,670
September 2007	49,945,000	15,722,372	9,826,317	5,896,055
October 2007	62,552,000	19,690,976	12,306,653	7,384,323
November 2007	9,423,000	2,966,301	1,853,907	1,112,394
December 2007	21,218,000	6,679,293	4,174,488	2,504,805
January 2008	178,755,000	56,270,949	23,449,024	32,821,926
February 2008	20,000,000	6,295,874	-	6,295,874
March 2008	200,000	62,959	-	62,959
April 2008	200,000	62,959	-	62,959
May 2008	200,000	62,959	-	62,959
June 2008	20,000,000	6,295,874	-	6,295,874
	<u>\$561,933,000</u>	<u>\$176,892,973</u>	<u>\$90,848,765</u>	<u>\$86,044,208</u>
50% of Operating Levy (Maximum Amount of TANS):			\$88,446,487	
Par Amount of TAN per Resolution (including OIP):			\$88,445,000	
Estimated Interest Rate:			4.00%	
Estimated Debt Service of TAN:			\$90,848,765	

(1) July through January estimated receipts are equal to actual receipts in FY 2007.

All other receipts are as budgeted for FY 2007.

(2) Total General Fund property tax receipts as budgeted for FY 2008.

(3) Calculated pursuant to Act 34.

# CITY OF DETROIT, MICHIGAN

## Aggregate Set-Aside Summary

<u>Receipt Date</u>	<u>Set-Aside to pay proposed Debt Service on RANs <sup>(1)</sup></u>	<u>Set-Aside to pay proposed Debt Service on TANs <sup>(2)</sup></u>	<u>Total DSA and Property Tax Set-Aside for RANs &amp; TANs</u>
July 2007	\$0	\$1,117,302	\$1,117,302
August 2007	-	38,121,074	38,121,074
September 2007	2,595,465	9,826,317	12,421,782
October 2007	-	12,306,653	12,306,653
November 2007	14,586,131	1,853,907	16,440,038
December 2007	-	4,174,488	4,174,488
January 2008	19,414,903	23,449,024	42,863,927
February 2008	-	-	-
March 2008	10,474,312	-	10,474,312
April 2008	-	-	-
May 2008	-	-	-
June 2008	-	-	-
	<u>\$47,070,812</u>	<u>\$90,848,765</u>	<u>\$137,919,577</u>

(1) See page 2 of 4.

(2) See page 3 of 4.